

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01

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FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC PRIORITY 8414

LIMITED OFFICIAL USE TEL AVIV 6170

E.O. 11652: N/A

TAGS: EFIN, EAID, AFSP

SUBJ: GOI ANNOUNCES NEW ECONOMIC MEASURES

REF: TEL AVIV 6161 AND PREVIOUS

BEGIN UNCLASSIFIED

1. SEPT 28, GOI ANNOUNCED NEW ECONOMIC MEASURES INCLUDING:
DEVALUATION OF ISRAELI POUND (IL) BY TEN PERCENT TO NEW RATE OF
IL SEVEN PER DOLLAR; INCREASE IN PURCHASE TAX RATES OF TEN
PERCENT; INCREASE IN FUEL PRICES OF 21 PERCENT. PRICES OF
WATER AND ELECTRICITY ANTICIPATED TO INCREASE, BUT MUST BE
APPROVED BY KNESSET FINANCE COMMITTEE. CONSUMER PRICE INDEX
EXPECTED TO RISE FIVE PERCENT AS RESULT NEW ECONOMIC MEASURES.
OBSERVERS GENERALLY WELCOMED PACKAGE BUT MOST DO NOT BELIEVE
IT GOES FAR ENOUGH.

2. FINANCE MINISTRY DG GAFNI QUOTED AS SAYING THAT MAIN EMPHASIS
OF NEW ECONOMIC MEASURES IS TO ENCOURAGE EXPORTS AND REDUCE
CONSUMPTION. DESPITE THREE MINDEVALUATIONS TOTALLING SIX PERCENT
SINCE JUNE ISRAELI POUND HAS RISEN WITH DOLLAR AGAINST EUROPEAN
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CURRENCIES. TEN PERCENT DEVALUATION ROUGHLY APPROXIMATES RECENT

DOLLAR APPRECIATION, MOREOVER MINIDEVALUATION POLICY WILL
CONTINUE, ACCORDING TO GAFNI.

3. PRELIMINARY REPORTS INDICATE THAT GOI'S IL SIX BILLION
BUDGETARY DEFICIT EXPECTED TO BE REDUCED ONLY BY ABOUT IL 650
MILLION. INCREASED TAXES ESTIMATED TO YIELD IL 1.8 BILLION
BUT INCREASED COSTS OF SUBSIDIES ON BASIC COMMODITIES AND FUEL
(TO ISRAELI ELECTRIC CORPORATION) ARE PROJECTED AT IL 1.15
BILLION.

4. GOI PLAN TO REDUCE SUBSIDIES ON BASIC COMMODITIES WAS NOT
IMPLEMENTED DUE TO OPPOSITION FROM HISTADRUT. PRESS REPORTS THAT
HISTADRUT THREATENED TO CANCEL EXISTING WAGE AGREEMENTS IF NEW
MEASURES RESULTED IN SIGNIFICANT PRICE INCREASES. COMPLETE
DETAILS OF PACKAGE WILL BE REPORTED WHEN AVAILABLE. END UNCLASSIFIED.

5. BEGIN LIMITED OFFICIAL USE. COMMENT: MEASURES FELL SHORT OF
MOST EXPECTATIONS WITH RESPECT TO BOTH AMOUNT OF DEVALUATION AND
NEW TAX BITE, UNDOUBTEDLY BECAUSE OF STRONG OPPOSITION FROM
HISTADRUT. PROBLEMS OF HUGE BUDGETARY DEFICIT, EXCESS LIQUIDITY
AND OVER-VALUED ISRAELI POUND HAVE NOT BEEN ELIMINATED AND AD-
DITIONAL STEPS WILL PROBABLY HAVE TO BE TAKEN IN MONTHS AHEAD.
TOON

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